

Memo

From City Plan Commission

RE: **Affordability of Housing and Impact Fees**

**Background:** The City Plan Commission (CPC) was asked to study the affect of Impact Fees on the affordability of housing in El Paso. Mathew McElroy provided extensive background materials on studies done in El Paso and elsewhere in the U.S. covering the impact on the development community, the pricing in the market, and estimates of lower income homebuyers. This memo will not attempt to cite the studies, but rather provides the rationale for CPC's recommendation to City Council. CPC recognizes that the imposition of Impact Fees is of great concern to many constituencies. Our recommendations have been thoughtfully and carefully developed considering a wide variety of view points in hopes of making the utilization of Impact Fees as fair as possible to all concerned, while improving El Paso's longer term sustainability.

### **Summary of Findings:**

1. The imposition of an Impact Fees in El Paso appears to have minimal affect on the over-all demand for housing based upon the studies. The market is relatively inelastic and housing remains one of the most basic of household needs.
2. CPC finds that the imposition of Impact Fees does affect affordability by increasing the "cost" of housing. The cost may be absorbed by the developer by increasing density, but it may also be passed on to the homebuyer. While this may be offset over time by reductions in water bills, there is considerable concern that even \$14/month (the monthly mortgage equivalent cost of a \$2000 Impact Fee) passed onto a new home buyer could result in less affordability.
3. Notwithstanding 1 and 2 above, the studies vary on how much of the Impact Fees is passed on to the buyer and how much the developer and/or land owner may have to absorb. If Impact Fees encourage more sustainable development (less sprawl), it is even possible that the efficiencies more than offset the additional costs, both to taxpayers and to the development community. This memo does not attempt to predict who absorbs the fees; however, the recommendations below do attempt to encourage 'smarter' growth patterns in order to help encourage sustainable (and affordable) residential markets, using Impact Fees to leverage those incentives.

### **Recommendations:**

1. If impact fees are implemented, do not implement the affordable housing credit provide under State Law 395 on a "house by house" basis. Instead use an incentive program which encourages growth which is more sustainable and affordable, as suggested in #3.
2. If impact fees are implemented, adopt an incentive policy similar to San Antonio and Austin which offsets the Impact Fees (and perhaps other fees imposed by the City) to the

developer if performance criteria are met. The impact fee is still collected and used for capital improvements, but the City creates an “offset” for those costs in consideration for performance factors which the City concludes are more helpful to the long term sustainability of the City. Criteria could address:

- a. Mixed Income and Affordability
- b. Access to Transit Corridors
- c. Density
- d. Walkability
- e. Mixed Use (work-live)
- f. Sustainable systems (i.e. reclaimed water systems, xeriscaping, greywater)
- g. Energy efficiency

The program should also be capped at a total amount available for incentives or a total number of units to control costs. A performance scorecard would also be developed which incorporated these “values”. If the scorecard achieves a high rating, then the Impact Fees are rebated on a scale which reflects the level of affordable housing included (i.e., 20-40%).

**Example:** A 100 home development with \$200,000 due in Impact Fees would be able to offset \$100,000 of the fee if 20 of the residences were “reasonably” priced (i.e., 80% or below Area Median Income spending no more than 30% of income on housing). The over-all development would have to meet the performance criteria established for safety, pedestrians, transit, etc. Note that the achievement of smart growth objectives (including community design that is more attractive to the municipality and its citizens) results in a rebate of fees that is 2.5 times more than a “house by house” credit of \$2000 per affordable house.

3. In order to implement this strategy, the City and EPWU may have to set budgets for the annual and/or cumulative fees that can be offset. Periodic evaluation of the program will help insure that objectives are being met and that the performance criteria are appropriate. San Antonio also caps annual rebates and caps the amount of rebate per development in order to spread the discount to as many developments as possible. It is assumed that the funding of this type of program can be more than justified by the savings to the municipal entities from encouraging denser, more walkable, and more affordable, transit friendly communities – a “win-win” program.

### **Rationale and Summary:**

The recommended approach leverages the use of Impact Fees to further focus our community toward more sustainable development patterns. Incentives are given to those developers who create more livable, mixed income, transit-oriented, and sustainable approaches to their plans, which also is attractive to the long term budget of the municipality. By calculating the incentives at the community plan level, the developer can actually use the rebates on the entire project to more heavily subsidize the affordable housing prices if necessary. This could have the affect of ***increasing the supply of truly affordable housing*** in areas that have access to appropriate community amenities (including transit) and encouraging mixed income (rather than single price point) communities. More importantly the performance criteria provide an opportunity for

developers to receive incentives for exceeding minimum standards, thereby rewarding good planning done by the private sector.

DRAFT